

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 2726 – HB 3064

February 1, 2012

SUMMARY OF BILL: Repeals the recordation tax codified in Tenn. Code Ann. § 67-4-409. Abolishes the Wetland Acquisition Fund, the Local Parks Land Acquisition Fund, the State Lands Acquisition Fund, and the Agricultural Resources Conversation Fund, all of which are funded with recordation tax revenue.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue - \$10,644,500/Wetland Acquisition Fund
\$5,685,100/Local Parks Land Acquisition Fund
\$4,959,400/State Lands Acquisition Fund
\$4,959,400/Agricultural Resources Conservation Fund
Net Impact - \$90,672,500/General Fund

Decrease State Expenditures – Not Significant

Decrease Local Revenue – Net Impact - Exceeds \$1,368,000

Decrease Local Expenditures – Exceeds \$3,074,400

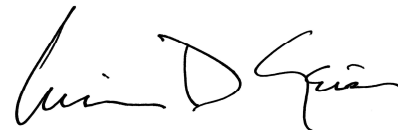
Assumptions:

- According to the Department of Revenue (DOR), the Department collected approximately \$120,960,000 in recordation tax revenue in FY10-11. This number is assumed to remain constant in subsequent years under current law. Therefore, the recurring decrease in state revenue is estimated to be \$120,960,000.
- DOR indicates the following apportionment for recordation tax revenue: 8.8 percent to the Wetland Acquisition Fund; 4.7 percent to the Local Parks Land Acquisition Fund; 4.1 percent to the State Lands Acquisition Fund; 4.1 percent to the Agricultural Resources Conversation Fund; and 78.3 percent to the General Fund.
- The recurring decrease in state revenue to the Wetland Acquisition Fund is estimated to be \$10,644,480 (\$120,960,000 x 8.8%); to the Local Parks Land Acquisition Fund is estimated to be \$5,685,120 (\$120,960,000 x 4.7%); to the State Lands Acquisition Fund is estimated to be \$4,959,360 (\$120,960,000 x 4.1%); to the Agricultural Resources Conversation Fund is estimated to be \$4,959,360 (\$120,960,000 x 4.1%); and to the General Fund is estimated to be \$94,711,680 (\$120,960,000 x 78.3%).

- County clerk offices collect and remit the majority of recordation tax revenue to the state.
- According to DOR, local governments retain 2.4 percent of recordation tax revenue before remitting to the Department. As a result, the recurring decrease in local revenue is estimated to be \$2,974,426 $\{[\$120,960,000 / (100.0\% - 2.4\%)] \times 2.4\%\}$. In addition, DOR indicates that local governments are authorized to collect a \$1 fee for each receipt issued for recordation taxes paid. The number of receipts issued is unknown. However, the decrease in local revenue attributable to this fee is reasonably estimated to exceed \$100,000 per year statewide. As a result, the total recurring decrease in local revenue attributable to elimination of recordation tax is estimated to exceed \$3,074,426 $(\$2,974,426 + \$100,000)$.
- A recurring decrease in local expenditures should result due to the county clerks no longer having to collect and remit recordation tax revenue to the state. It is assumed that the revenue authorized to be retained by county clerks is sufficient for covering all expenditures associated with collection and remittance. As a result, the recurring decrease in local expenditures is estimated to exceed \$3,074,426 per year.
- Given that county clerks collect and remit the majority of recordation tax revenue, any decrease in state expenditures is estimated to be not significant.
- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- The recurring increase in state sales tax revenue is estimated to be \$4,233,600 $(\$120,960,000 \times 50.0\% \times 7.0\%)$.
- The recurring increase in local option sales tax revenue is estimated to be \$1,512,000 $(\$120,960,000 \times 50.0\% \times 2.5\%)$.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of all state sales tax revenue as state-shared sales tax revenue.
- In total increase in local revenue attributable to sales tax is estimated to be \$1,706,428 $[\$1,512,000 + (\$4,233,600 \times 4.5925\%)]$.
- The net decrease in local revenue is estimated to exceed \$1,367,998 $(\$3,074,426 - \$1,706,428)$.
- The net decrease in state revenue to the General Fund is estimated to be \$90,672,508 $\{94,711,680 - [\$4,233,600 - (\$4,233,600 \times 4.5925\%)]\}$.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

/rnc